QUEENSLAND RESOURCES COUNCIL

STATE OF THE SECTOR

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AGILE RESPONSES FOR CHANGING TIMES

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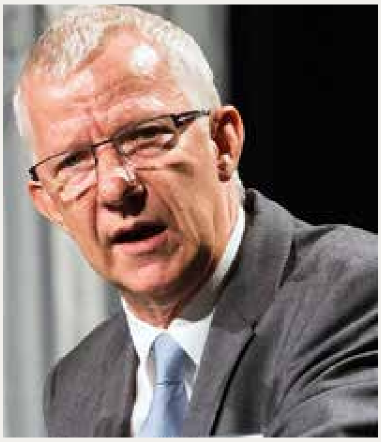


One of the key attributes of a successful industry advocate is the ability to adapt quickly and strategically.

Reflecting the current outlook for most resource commodities and an evolving political landscape, the QRC Board of Directors has confirmed four new priorities for the organisation in 2014-15, including a refocusing of secretariat resources.

Our top four priorities for 2014-15 are:

- promote industry contributions and counter anti-industry activism
- enhance regulatory certainty
- pursue cost savings for industry through energy reform
- influence the state's infrastructure priorities and planning, including progress of proposed asset sales.

Maintaining our members' global competitiveness and social licence to operate are central to the QRC business plan.

To achieve this, we will continue our policy collaboration with national and state kindred bodies and extend our links throughout Queensland with regional development organisations by building our network of regional partners.

QRC will continue to engage the state government on all policy fronts, noting the potential impacts over the coming year of possible asset sales to reduce state debt, implementation of the new regional planning legislation and the impending 30-year ResourcesQ plan, the RegionsQ framework, and of course, the overarching Queensland Plan.

The state government deserves acknowledgement for tackling some tough reforms in its first term including streamlining of project approval processes, ensuring that objections and appeals processes are not abused by vexatious litigants and more generally being prepared to push back against concerted anti-industry activism (see our feature article inside).

The QRC is in the throes of finalising an *Election Policy Agenda* document to be submitted to the major parties for their consideration in the lead up to the upcoming state election.

That document will have a clear focus on how Queensland can position itself to be a preferred destination for resources sector investment.

Queensland has been well served by the bipartisan support for resources sector development over the past decade. For example, both major parties can claim credit for the exciting upcoming milestone of the first export of LNG from Gladstone.

Along with the extraordinary injection of wealth into regions like the Darling Downs and Gladstone, the recent state budget confirmed the new LNG industry would deliver over $600 million a year in royalty revenue to the state.

It will be incumbent upon QRC to remind all political candidates that the Queensland resources sector is currently responsible for one in four dollars of the Queensland economy and one in five jobs.

Despite current challenges confronting parts of the sector, this contribution is as strong as ever.

At the federal level, the QRC will continue to advance member interests through supporting effective implementation and operation of the one-stop-shop for environmental approvals and advocacy on the Great Barrier Reef and related industry issues.

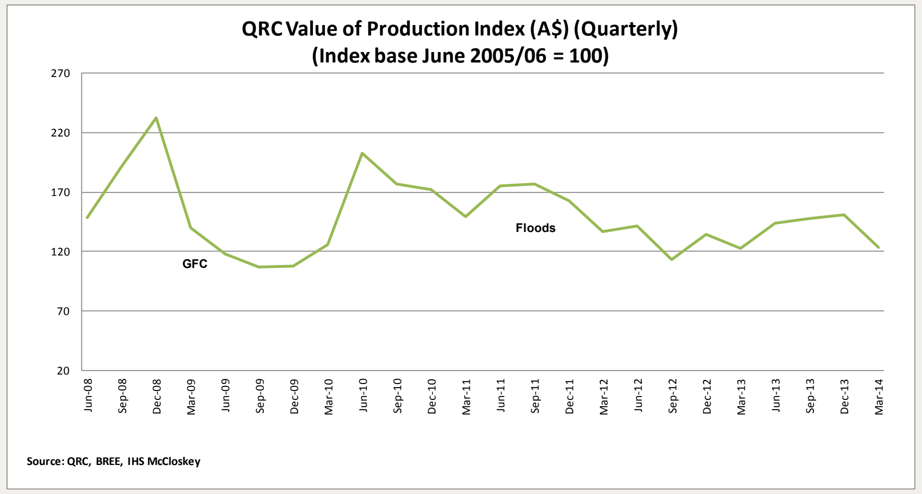
QRC is representing the resources sector on the

IN THIS EDITION:

Partnership Group working with the Queensland and Australian governments on the all-important *Reef 2050 Long Term Sustainability Plan,* which is a key deliverable to the World Heritage Committee prior to its June 2015 meeting.

Organisational agility is also essential to prepare for an inevitable upturn in demand for Queensland's minerals and energy commodities.

Asia's appetite for economic development has been moderated, not abandoned.



In the meantime, the *QRC CEO Sentiment Index* in this edition continues to rank the global macroeconomy as the number one concern over the next 12 months.

Uncertainty remains around the ability of China to sustain growth levels and the extent of reforms that the new government in India will undertake to reinvigorate its economy.

Reflecting the QRC's 2014-15 priorities, their second ranked concern is the mobilisation against resources projects by environmental activists followed by raising capital and high input costs.

A consistent theme is the struggle to maintain Queensland resources operations' global competitiveness.

The millstone of a persistently high Australian dollar is being burdened further by input costs that are the legacy of a resources investment peak that has passed and need to better align with the realities of a subdued global market.

KEY INDICATORS

QRC PRODUCTION INDEX

The QRC production index is a composite weighted index that tracks percentage increases and decreases in the total production of Queensland bauxite, alumina, aluminium, coal, copper, gold, lead, silver, and zinc quarter to quarter.

Weightings are on a value of production basis; hence changes in coal production (representing 70% of the Queensland resource sector's total value of production) have a proportionately larger impact on the index than changes in silver production for example (representing just 5% of total value of production).

Note – because Queensland is not yet producing significant quantities of additional coal-seam gas this output has not been included.

The index at the end of the March 2014 quarter (latest available data) reached 119 points. This is a decrease of 10 percentage points from the December 2013 quarter but an overall increase in 13 percentage points over the 12 month period (Mar 13 - Mar 14) (June 2006=100).

The total volume of Queensland coal exported in the March quarter was down 11% from 54.3 million tonnes to 48.6 million tonnes on account of supply realignment and major maintenance activities at several ports. Indicative June quarter data tells us that production has once again ramped up with exports likely to be in the vicinity of 53-54 million tonne. Total Queensland coal exports for the 12 month period between March 2013 and March 2014 were at a record 203 million tonnes.

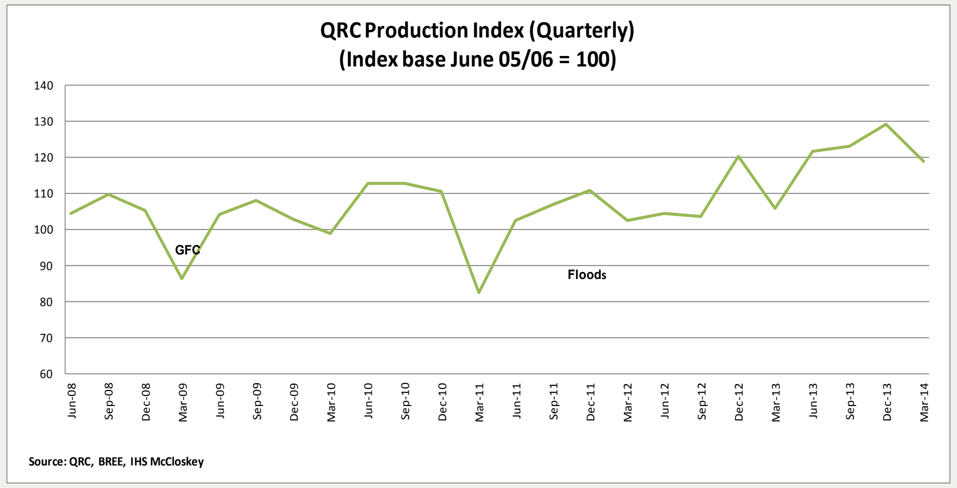
The majority of commodities including zinc (268 kt to 233 kt), alumina (1,599 kt to 1,555 kt) aluminium (139 kt to 129 kt), bauxite (6,787 kt to 6,116 kt), and lead (124 kt to 118 kt) and) recorded lower production volumes over the March quarter. Gold (4t) production remained constant and only silver (358 t - 387t) and copper (74t 75t) recorded increased production volumes.

The cumulative effect of these decreases as well as the decrease in coal exports resulted in the 10 percentage point decrease in the QRC Production Index.

QRC VALUE OF PRODUCTION INDEX

Comprising the same basket of goods as the QRC production index, the QRC value of production index is also a weighted index. It combines domestic production and average global benchmark prices to track percentage increases and decreases in the Queensland resource sector's total value of production.

The index at the end of the March 2013 quarter (latest available data) reached 124 index points, significantly down from 151 in the previous quarter. In aggregate, the resources sector recorded sales of A$7.8 billion in the March quarter, down from A$9.5 billion in the December 2013 quarter.



This decrease was primarily on account of a 20 per cent decline in spot premium metallurgical coal prices over the quarter (US$136/t down to $113) and 16 per cent decrease in thermal coal prices (from US$85/t —$73).

Alumina (USA300/t — $US314/t), gold ($US1,271/oz — $US1,293/oz) and zinc (US$1,909/t — US$2,031/t) recorded increases while lead (US$2,111/t — US$2,104/t), copper (US$7,153/t — US$7,054/t) Aluminium (US$1,769/t— US$1,708/t) and silver (US$2,082/troy oz — US$2,048/troy oz) recorded decreases over the quarter.

PRICE OUTLOOK

While there have been a number of positive developments recently, the market fundamentals in most commodity markets remain subdued with limited price recovery expected in the short term.

Acccording to the Bureau of Resources and Energy Economics , the global economy is expected to grow 3.8 per cent in 2015, compared to 3.4 per cent in 2014, underpinned by strong activity in China and the US. India is also expected to exhibit stronger GDP growth following a change in government.

Global coal markets remain 'sticky' with some high cost producers continuing to supply at significant losses and with more coal entering the market. Of note is that US production is starting to dip with Indonesian and Australian production increasing.

Spot prices for seaborne premium metallurgical Australian product have hovered around $US113-116/t well into the June quarter.

However, and encouragingly, the downward trajectory in benchmark metallurgical coal prices, in place since October 2013, appears to be easing, with September quarter pricing offers around $120/t for premium brand, metallurgical coal.

Thermal coal, prices have continued to fall, with the spot price reaching US$70.35/t in the last week of June 2014.

This deterioration is likely to have a bearing on Japanese Power Utility (JPU) June-expiry contract pricing talks which are currently under way with Australian suppliers. The ruling June-expiry contract reference price is $89.95/t FOB, basis 6,322kc GAR, but the most recent JPU contract price set for the much larger tonnage March-expiry contract year was $81.80/t FOB on the same basis.[1]

FEATURE ARTICLE: ROCKEFELLER SOLD A PUP ON GASSY PREMISE

It's October 2011 and thanks to a $50,000 grant from the Rockefeller Family Fund, more than 20 environmental activists gather in the Blue Mountains to plot the downfall of the Australian coal industry.

In their own words: 'We urgently need to build the anti-coal movement and mobilise off the back of the community backlash to coal seam gas. If we fail to act decisively over the next two years, it will be too late to have any chance of stopping almost all of the key infrastructure projects and most of the mega-mines.'

'Coal seam gas has spawned a phenomenal community backlash through the 'lock the gate' movement and has created unprecedented political opportunities for coal activists around the country.'

Following this homage to Lock the Gate creator Drew Hutton, the first Australian 'anti-coal convergence' justified the contribution of its US benefactors: 'If the (Australian coal) industry expands unchecked, it will undermine efforts to curtail coal exports from the United States, will ensure coal supplies for a new generation of coal power stations in India, and will have devastating consequences for the global climate.'

The simplest translation is that a domestic campaign against the expansion of coal-fired power plants in the

1 http://www.bree.gov.au/sites/default/files/files//publications/req/REQ-2014-06_.pdf

United States was convinced that it would all be for nothing if the Australian coal industry was not brought to heel. The absurdity of the argument was never tested and has been completely overtaken by the US embrace of (ironically for us) unconventional gas.

The convergence organisers and authors of a subsequent strategy document *Stopping the Australian Coal Export Boom* were John Hepburn (Greenpeace Australia Pacific), Bob Burton (Coalswarm, USA) and Samantha Hardy (Graeme Wood Foundation).

Since the strategy's leaking to the Australian Financial Review (March 2012), Hepburn and Burton have moved into senior positions with the tax-deductible 'charity' the Sunrise Project (alongside other anti-coal movement leaders).

The founding members of the anti-coal movement are Beyond Zero Emissions, Getup!, trade union United Voice, Pew Environment Group, Greenpeace, Lock the Gate, NSW/Qld Environmental Defenders' Offices, Mackay Conservation Group, Nature Conservation Council, Capricornia Conservation Council, Environment Victoria, Mineral Policy Institute, Climate Action Network Australia and The Australia Institute.


Stopping the
Australian Coal Export Boom

Funding proposal for the Australian anti-coal movement

John Hepburn (Greenpeace Australia Pacific)
Bob Burton (Coalswarm)
Sam Hardy (Graeme Wood Foundation)

'Our strategy,' say the activists 'is to disrupt and delay key projects and infrastructure while gradually eroding public and political support for the industry and continually building the power of the movement to win more.'

Instructive in the current context is that *Stopping the Australian Coal Export Boom* identified the Great Barrier Reef's (GBR) potential for political leverage against development of the LNG industry and opening up of the Galilee Basin.

The 'disrupt and delay' tactics have been evident in vexatious legal challenges against major coal projects but there are other tactics in play.

'Changing the story of coal (and gas)' means disparaging the industries' economic contribution.

Such 'reports' are published regularly by either The Australia Institute (anti-coal movement founder); Centre for Policy Development (Thomas Foundation/WWF) or the Institute for Energy Economics and Financial Analysis (Rockefeller Family Fund).

'Linking coal to health issues' began with a Greens-sponsored Senate inquiry into air quality, almost entirely devoted to coal dust while skating over wood smoke and other major pollutants. An ongoing scare campaign in suburban Brisbane and Ipswich is being run by Clean Air Queensland, an offshoot of Lock the Gate.

The QRC continues to take a high profile on these issues by promoting scientific evidence over emotional blackmail, notably in relation to the insignificance for local air quality of coal trains moving through to the Port of Brisbane and wildly exaggerated claims about the impacts of industry and port expansions on the GBR.

In April, the QRC took the reef debate to the national level with a TV advertising campaign challenging (publicly conceded) scaremongering by Fight for the Reef – a collaboration between WWF and the Australian Marine Conservation Society (AMCS), funded by the (David) Thomas Foundation.

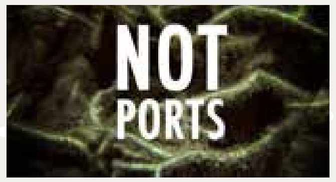

Michael Roche inspects 24/7 ship monitoring of the Great Barrier Reef at REEFVTS Townsville

WWF is not named as a contributor to the 2011 anti-coal strategy development but they have become enthusiastic exponents; so much so that their Fight for the Reef website fails to mention any of the threats to the GBR that they had previously championed including river catchment water quality and Crown of Thorns starfish.

The QRC commercials were hard-hitting, highlighting documented damage to the reef identified by the Australian Institute of Marine Science (storms, starfish and coral bleaching).

Their confronting nature https://www.qrc.org.au/01_cms/details.asp?ID=3428, which recommended viewers visit either the QRC or Queensland Government's ReefFacts http://www.reeffacts.qld.gov.au/ websites, caused some disquiet in parts of the state government and the tourism industry.

Contrary to claims by the Greens, the commercials were not part of some covert QRC-government plot.

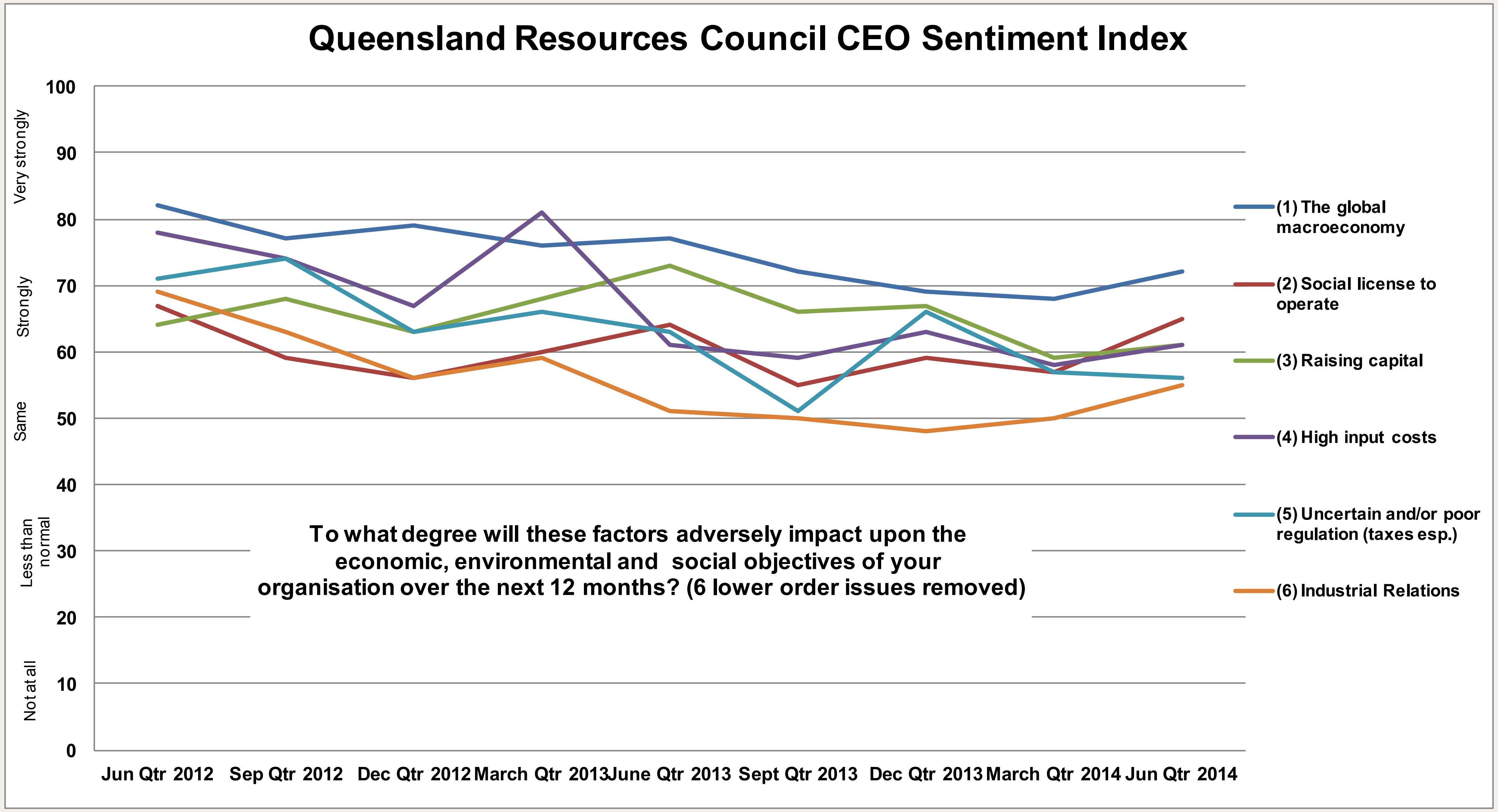


The campaign was an independent QRC initiative that, while boosting the profile of our own 'Working Alongside the Great Barrier Reef' campaign, helped to treble the number of visitors to the state government's ReefFacts website.

Overwhelmingly, the commercials helped refocus the debate on the real facts and the real science.

Concerted, well-funded attacks on the Queensland resources sector's social licence to operate will continue, especially while the threat of a World Heritage 'in-danger' listing hangs over the GBR (now until at least mid-2015).

The implications for the resources sector of having exports constrained along 80 percent of the Queensland eastern coastline are self evident with around $40 billion in resources exports shipped annually through ports adjacent to the GBR.



GLOBAL ECONOMY STILL TOP OF MIND FOR QRC CEOS

The QRC CEO Sentiment Index is a survey of the QRC's full member company chief executives.

These companies cover the majority of mining, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

The top six areas of concern over the next 12 months for resource sector CEOs include:

1 Global macroeconomy = despite forecasts for higher global growth in 2015, uncertainty remains around the ability of China to sustain growth levels and reforms the new Indian government will undertake to reinvigorate the Indian economy.

2 Social licence to operate = Mobilisation against resource projects by the environmental activist groups, including unfounded public claims about the potential impacts of resources extraction, and direct approaches to landholders.

3 Raising capital = raising capital on the debt and equity markets remains difficult given low commodity prices, regulatory burden and perceived sovereign risk. Securing internal funding within the larger organisations is also difficult as shareholders request larger dividends and as funding is directed to lower cost jurisdictions globally.

4 High input costs = persistently high AUD against the USD; high effective tax and royalty burden and the general increase in the array of government charges; high labour costs; high below and above rail charges; high energy costs on account of network and green costs and domestic gas scarcity; and labour productivity challenges associated with Australia's IR systems.

5 Uncertain and/or poor regulation = The proposed increase in Queensland Environmental Authority charges as announced in the recent state Budget have been called out.

6 Industrial relations = Inflexible IR system has lead to structural wage cost issues and a diminished focus on improving labour productivity.

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QRC PROFILE

Written and prepared by the Queensland Resources Council which is the peak representative body for 250 companies with interests in the state's minerals and energy sector. The data and information for this publication is sourced from a number of public sources – notably members directly, mccloskeycoal.com, the Bureau of Resources and Energy Economics and the Australian Bureau of Statistics. For more information, contact the Queensland Resources Council on (07) 3295 9560 or www.qrc.org.au